Government of the District of Columbia
Office of the Chief Financial Officer

Glen M. Lee
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO:	**The Honorable Muriel Bowser** **Mayor, District of Columbia** **The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Glen M. Lee** **Chief Financial Officer**
DATE:	**November 21, 2022**
SUBJECT:	**"The Volunteers of America, Inc. National Service Center Relocation Tax Exemption Amendment Act of 2022"**
REFERENCE:	**Bill 24-0930**

Findings

The Volunteers of America, Inc. National Service Center Relocation Tax Exemption Amendment Act of 2022 (the Bill) would provide a real property tax exemption to office space to be constructed at 100 Potomac Avenue, SW (the Premises), and occupied by Volunteers of America, Inc. (VOA) or its affiliates or subsidiaries (collectively, the "Applicant"). The proposed exemption would continue for as long as the Applicant complies with the conditions described in the legislation and summarized below.

The Office of the Chief Financial Officer (OCFO) finds that the exemption is not financially necessary to meet the Applicant's financing of the Premises.

Background

VOA is a national nonprofit providing, through its affiliate entities, human service programs in 46 states, DC and Puerto Rico. Services include building affordable housing and providing senior healthcare. VOA is currently headquartered in Alexandria, Virginia. VOA is seeking to relocate to the Premises, a 38,000 square foot office space in a mixed-use building at 100 Potomac Avenue, SW, in the Buzzard Point neighborhood in Ward 6. The building, expected to be completed in 2026, will be constructed on land currently known for tax and assessment purposes as Square 0665 Lot 0027.[1] VOA will have condominium ownership of the Premises.

The mixed-use building containing the Premises would also house approximately 111 senior affordable housing units, 345 apartment units, and ground floor retail. The 111 senior affordable housing units will be owned[2] and operated by a wholly-owned VOA affiliate, Volunteers of America National Services (VOANS). The Bill would exempt the Premises only, and not the residential or retail space, from real property tax. The Bill also provides no exemption from possessory interest tax. The real property tax exemption would apply beginning October 1, 2026.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO to contain certain information. The required information is included below**.**

(A) Terms of the Exemption

The proposed legislation provides an exemption for the Premises from real property tax liability, subject to annual compliance with the following conditions:

- Development of approximately 111 affordable senior units, with 70 units being at 30% AMI and 41 units being at 50% AMI
- Provision of supportive services that promote independent healthy living and well-being for residents of the senior affordable housing adjacent to the Premises. Supportive services staff will consist of at least one on-site community health worker, resident coordinator, or full-time equivalent
- The Premises is approximately 38,000 square feet
- Applicant's participation in the Marion Barry Summer Youth Employment Program or a similar program
- Construction is subject to the First Source Employment Agreement Act
- The project is subject to Section 2346 of the Small and Certified Business Enterprise Development and Assistance Act of 2005
- The Applicant re-certifies annually to the Office of Tax and Revenue that all conditions are being met

(B) Value of the Abatement

As shown in Table 1, there is no impact during the financial plan period. The exemption would begin in FY 2027. As currently written, the exemption would continue as long as the conditions specified in the Bill are satisfied. Through FY 2047, the total value of this exemption is estimated to be $8,919,175.

[1] The land is owned by the District and ground leased to H&A DCU JV, LLC for a 99-year term. VOA has entered into a purchase and sale agreement for the office space from the ground lessee and developer of the property. This Bill does not exempt the ground lessee from Possessory Interest tax.
[2] Through a condominium ownership structure.

Table 1: Estimated Value of the Proposed Tax Abatement

Exemption	FY 2023	FY 2024	FY 2025	FY 2026	Total FY 23-26	Total FY 27-47	Total Value
Real Property Tax	**$0**	**$0**	**$0**	**$0**	**$0**	**$8,919,175**	**$8,919,175**

The Exemptions and Abatements Information Requirements Act of 2011 requires certain information from the Applicant pertaining to political contributions and contracts held by the Applicant if the total estimated value of the abatement or exemption is $250,000 or more. According to the Applicant, no political contributions have been made. A list of the applicable contracts with the District of Columbia held by the Applicant or affiliates of the Applicant as described in D.C. Official Code § 47-4701(b)(1)(c-i) are in Appendix B.

(C) Purpose of the Abatement

According to the Applicant, the purpose of the exemption is to reduce the Applicant's operating expenses to meet tentative debt covenants with its preferred lender for the Premises.

(D) Summary of the Proposed Community Benefits

The community benefits provided by the Applicant are provided in Attachment A.

(E) Financial Analysis and Advisory Opinion

The OCFO's Office of Finance and Treasury (OFT) evaluated the Applicant's audited, consolidated financial statements from 2018 to 2021. The Applicant also included a pro-forma displaying future financials if the exemption was granted or not granted, purchase and sale agreement for the Premises, collateral, and other information about its operations.

The Applicant intends to finance a portion of the purchase cost of the Premises and has highlighted a likely financing requirement that requires the Applicant's annual net revenues, before debt service, to provide a debt service coverage ratio (DSCR) of 1.2 times the annual debt service. According to the Applicant, the organization's net revenues will not provide a sufficient DSCR to the estimated debt service on the permanent financing; even with the proposed tax exemption, the operating expenses of the Premises will need to be cut in order to meet the likely DSCR requirement. With the proposed tax exemption, a sufficient DSCR of 1.2 still would not be attained in the project's first year of FY 2027, but would be attained starting in FY2028 and onwards. Based on a review of the Applicant's financial information and tentative financing terms for the Premises, OFT agrees that without the requested exemption the Applicant would not meet the DSCR requirement for the foreseeable future and that its annual revenues would potentially limit its ability to finance the purchase at the desired level.

To determine the financial necessity of this exemption, the OCFO then considered alternate financing options available to the Applicant. The Applicant indicated the current plan is to finance $17 million for the Premises. Alternatively, the Applicant could finance a smaller portion of the purchase and use other funding sources at its disposal. Through a review of the provided pro-forma the OCFO determined that the 1.2 DSCR could be attained by FY2028 if the financed amount is reduced to approximately $13.85 million, and the amount paid from other sources increased by approximately

$3.15 million. The DSCR would not be reached in FY2027, the first year of the exemption, in this scenario but it is to be noted that the Applicant's net revenues would be insufficient in FY2027 to cover the 1.2 DSCR even with the full exemption. Given the level of long-term investments identified on the Applicant's financial statements, an additional liquidation of approximately $3.15 million in assets would be financially feasible for the organization.[3] Regardless of the means used to reduce the financed amount of the purchase, it is the opinion of the OCFO that the means of the Applicant are strong enough to meet this additional need for capital without a tax exemption.

Conclusion

For the reasons set forth herein, OCFO finds that a tax exemption is not financially necessary. Based on the assets available within the organization, there are sufficient resources to pay this tax liability. If an exemption is granted, OCFO believes the terms of the current legislation need to be changed from an open-ended exemption to one that is no longer than the financing term.

[3] The Applicant's board of directors typically liquidates 3 to 4 percent of net assets annually to subsidize operations. In addition to using a greater share of VOA's assets on a one-time basis, the Applicant could also make up the financing difference through appropriating endowment assets for strategic initiatives, imposing a higher affiliate fee to bring in more revenues, and additional contributions to the capital campaign currently being undertaken by the Applicant.

Appendix A

Summary of Community Benefits Provided by Applicant

Volunteers of America, Inc. (VOA) is a national, faith-based 501(c)(3) organization serving people and communities in need in 46 states, the District of Columbia and Puerto Rico, to help the most vulnerable and under-served people achieve their full potential. It was organized as a New York non-profit corporation in 1896 and celebrated its 125th anniversary last year. Its wholly owned affiliate, Volunteers of America National Services (VOANS) is one of the nation's largest non-profit providers of quality affordable housing and senior healthcare and other related social service programs. VOA, Inc. has thirty chartered local affiliates across the country, including Volunteers of America Chesapeake and the Carolinas (VOA CC) which serves DC, Maryland, Virginia, North and South Carolina. From seniors and people with disabilities, to the homeless and those recovering from addiction, VOA Inc.'s network of affiliates across the country coordinates to deliver a wide variety of high quality social service programs in over 400 local communities, including right here in the District of Columbia.

VOA, Inc. provides certain essential services to VOA Chesapeake and VOANS that are critical to their ability to provide services in the District, including, but not limited to communications, branding, fundraising, staff support, professional development and training, advocacy, and technical assistance. In addition, VOA, Inc. makes available financial support, loans, guaranties and serves as a financial backstop to these affiliates which ensures they have the liquidity needed to support their operations.

We believe it is critical to integrate the VOA Service Center at The Point with our programs on the ground to create new synergies that not only advance VOA's service work but will provide an opportunity to develop innovative solutions to integrate housing and healthcare to the benefit of seniors that can be replicated in the District and beyond. One of our greatest strengths as an organization is being 'in-community', the relationships, trust and connections to the communities we serve. Co-locating our National Service Center, our national and local affiliate teams with adjacent affordable housing and services at The Service Center at The Point is a reflection of our commitment to ensuring we are an integrated, daily part of the neighborhoods we are honored to serve.

Appendix B

Contracts with the District of Columbia

Entity	Description
VOANS	Application for gap financing for DHCD for the 111 units of senior affordable housing at 100 Potomac Avenue SW.
VOANS	Part of redevelopment team that was awarded the development rights for the Langston-Slate school buildings site.
VOACC	See complete contract listing below.

Current and Recent VOACC Contracts with District Agencies				
PROGRAM NAME	**FUNDING AGENCY**	**AMOUNT**	**START DATE**	**END DATE**
DC Behavioral Health Program (Core Services)	DC Department of Mental Health - CN# RM-17-HCA-MHRS-VOA-BY4-RDS	$300,000 ?	10/1/2021	9/30/2022
DC School-based Mental Health - Currently negotiating MOA	DC Dept. of Behavioral Health CESBMH-2402	$70,334	10/1/2021	9/30/2022
Medication-Assisted Treatment-Prescription Drug Opioid Abuse (MAT-PDOA) grant # 1H79TI084237	SAMSHA	$525,000	9/30/2022	9/29/2023
Yo Creo En Mi Program (MAI-HIV/AIDS) grant # H79TI085239	SAMHSA	$500,000	9/30/2022	9/29/2027
DCOR2 (District of Columbia Response 2) Peer Operated Centers	DC Department of Behavioral Health RFA # RMO DOR092520	$328,990	1/1/2021	9/30/2022
DC Residential Expenses	DC DDS Contract No: CW86833	?	11/1/2022	10/31/2023